

Message Text

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PAGE 01 PARIS 26408 01 OF 03 121541Z
ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 EURE-00 SSO-00 USIE-00 AID-05
CEA-01 CIAE-00 COME-00 EB-08 EA-10 FRB-03 INR-07
NEA-10 NSAE-00 OPIC-03 SP-02 TRSE-00 LAB-04
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FM AMEMBASSY PARIS
TO SECSTATE WASHDC IMMEDIATE 8430
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LIMITED OFFICIAL USE SECTION 01 OF 03 PARIS 26408

USOECD

USEEC

PASS EB/ICD

E.O. 11652: N/A
TAGS: ETRD, OECD
SUBJECT: SEPTEMBER 8-9 MEETING OF AD HOC GROUP ON
COMMON FUND

1. SUMMARY: AD HOC GROUP DEVOTED SEPTEMBER 8-9
SESSION TO AN INTENSIVE REVIEW OF PAPERS ON BASIC
FINANCIAL MECHANISMS OF A COMMON FUND SUBMITTED BY UK,
NETHERLANDS, US, FRANCE, AND SWITZERLAND. HIGHLIGHTS
OF DISCUSSION ARE REPORTED BELOW. EXCHANGE OF VIEWS
REVEALED CONSIDERABLE COMMON GROUND AMONG DELS WITH
RESPECT TO AN ARRANGEMENT WHICH WOULD PROVIDE FOR ICA
(INTERNATIONAL COMMODITY AGREEMENT) FINANCIAL REQUIRE-
MENTS FOR STOCKS FROM DEPOSITS FROM ICA'S, ECONOMIES
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PAGE 02 PARIS 26408 01 OF 03 121541Z

FROM POOLING THESE, AND POSSIBLY A COMMERCIAL BORROWING
CAPACITY. MAIN AREAS OF DIFFERENCE WERE WITH REGARD TO
LEVEL OF MINIMUM DEPOSIT REQUIREMENTS (RANGE WAS FROM
40 TO 70 PERCENT OF TOTAL REQUIREMENTS) AND ROLE OF
AND BASIS FOR BORROWING CAPACITY. GROUP ALSO DISCUSSED
QUESTIONS OF NATIONALLY HELD STOCKS AND LEVY-FINANCED
ICA'S AT SOME LENGTH. NEXT MEETING IS SCHEDULED FOR

SEPTEMBER 27-28 AND WILL CONTINUE EXAMINATION OF THESE QUESTIONS, BUT CONCENTRATE ON ISSUES OF MANAGEMENT AND VOTING AND ON REPORT TO THE HIGH-LEVEL GROUP TO BE DRAFTED BY CHAIRMAN. GROUP ALSO AGREED TO MEET TWICE IN OCTOBER, WITH FIRST MEETING SCHEDULED FOR OCTOBER

13

AND 14. END SUMMARY.

2. DEPOSITS AND CREDITS: MAIN FOCUS OF GROUP'S DISCUSSION WAS ON DEPOSIT/CREDIT RELATIONSHIPS PROPOSED IN NATIONAL SUBMISSIONS. UK IDEA TO HAVE ICA'S RESORT FIRST TO OWN RESOURCES FOR 50 PERCENT OF NEEDS, THEN DRAW ON 40 PERCENT DEPOSITED WITH FUND, AND FINALLY ON 10 PERCENT CREDIT TRANCHE WITH FUND, MET WITH CONSIDERABLE CRITICISM FROM NORDICS AS POLITICALLY IMPOSSIBLE. NETHERLANDS FAVORED 40 PERCENT DEPOSIT WITH FURTHER 8 PERCENT IN CREDIT TRANCHE AND DEVOTED MOST OF ITS PAPER TO "OTHER MEASURES," WHICH GROUP AGREED WAS NOT RIPE FOR DISCUSSION. FRENCH CONCEPT INVOLVED FLEXIBLE MINIMUM, UNDER WHICH 70 PERCENT DEPOSIT WOULD ENTITLE ICA TO 30 PERCENT CREDIT, WHILE 50 PERCENT DEPOSIT WOULD GIVE CREDIT OF 15 PERCENT OF TOTAL RESOURCES NEEDED. SWISS PROPOSAL EMBODIED DEPOSIT OF 40 TO 70 PERCENT WITH SUFFICIENT CREDITS TO BRING ICA TO 100 PERCENT OF REQUIREMENTS. US PAPER, DESCRIBED IN MORE DETAIL BELOW, IS SIMILAR TO SWISS ON LIMITED OFFICIAL USE

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PAGE 03 PARIS 26408 01 OF 03 121541Z

THIS ASPECT. NO DEL SUGGESTED ICA'S BEING ALLOWED TO EXCEED 100 PERCENT OF REQUIREMENTS. THERE WAS CLEARLY WIDE CONSENSUS THAT BACKBONE OF FUND SHOULD BE DEPOSITS OF ICA'S, WITH MAIN DIFFERENCES BEING PREFERENCE OF SOME DELS TO HOLD CREDITS TO LEVEL THAT COULD BE PROVIDED FROM ECONOMIES OF POOLING (I.E., 10-20 PERCENT) AND OTHERS' VIEW THAT DESIRABLE GOAL WOULD BE TO FIND SOUND MECHANISM FOR FUNDING 100 PERCENT OF ICA'S NEEDS WITH A MORE MODEST DEPOSIT REQUIREMENT.

3. FINANCIAL RESOURCES OTHER THAN DEPOSITS: COMMON THREAD OF ALL PRESENTATIONS ON THIS QUESTION WAS RELIANCE ON COMMERCIAL BORROWING, ALTHOUGH NUMBER OF DELS SEE ROLE FOR GOVERNMENT CONTRIBUTIONS (ONLY DUTCH MENTIONED MANDATORY CONTRIBUTIONS), BORROWING FROM IFI'S, NET PROFITS OF FUND, ETC. NORWAY THOUGHT BASIC CONCEPT OF FUND SHOULD BE RELIANCE ON COMMERCIAL BORROWING TO SUPPLY 2/3 OF ICA'S NEEDS. UK WAS VERY PESSIMISTIC ON USE OF WARRANTS AS COLLATERAL FOR BORROWING AND THOUGHT GUARANTEES OF CREDIT WORTHY

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PAGE 01 PARIS 26408 02 OF 03 121547Z
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LIMITED OFFICIAL USE SECTION 02 OF 03 PARIS 26408

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GOVERNMENTS TO FUND WOULD BE NECESSARY, FRG
CONSIDERED THIS WOULD PUT MAIN BURDEN OF BACKING
FUND ON IT AND A FEW OTHER COUNTRIES. UK AND FRG WERE
IN ANY CASE VERY HESITANT ON GIVING FUND ANY
POSSIBLE RESOURCES OTHER THAN DEPOSITS. FRENCH AND
DUTCH PROPOSALS ENVISAGE COMMERCIAL BORROWING ON
BASIS OF WARRANTS AND ON BASIS OF GOVERNMENT
GUARANTEES TO THE COMMON FUND. SWISS CONSIDER CALLABLE
CAPITAL, GOVERNMENT GUARANTEES, AND BUFFER STOCKS
THEMSELVES AS OPTIONS TO BACK COMMERCIAL BORROWING,
WHILE US PAPER SUGGESTS WARRANTS AND RIGHTS TO CALLABLE
CAPITAL OF ICA'S SHOULD BE MAIN BACKUP. GROUP WAS IN
GENERAL AGREEMENT THAT QUESTION OF WHAT COMMERCIAL
BANKS WOULD REQUIRE AS COLLATERAL FOR LOANS TO COMMON
FUND WAS IMPORTANT ONE AND SHOULD BE LOOKED INTO
CLOSELY.

4. US PAPER: US DEL NOTED THAT PROBLEMS OF QUANTIFY-
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PAGE 02 PARIS 26408 02 OF 03 121547Z

ING POOLING ECONOMIES HAD LED US TO THINK IN TERMS OF A BROADER CONCEPT OF POOLING INVOLVING BOTH THE CASH RESOURCES AND BORROWING CAPACITIES OF ICA'S. IN SUCH A SCHEME ICA'S WOULD, FOR EXAMPLE, DEPOSIT 40 PERCENT OR MORE OF THEIR TOTAL REQUIREMENTS WITH THE FUND, AND BE ABLE TO DRAW UP TO 100 PERCENT OF TOTAL REQUIREMENTS USING WAREHOUSE RECEIPTS AND RIGHTS TO THEIR CALLABLE CAPITAL AS COLLATERAL. ICA'S WOULD THUS HAVE THE OPTION OF CALLING CAPITAL OR BORROWING FROM THE FUND. THE FUND WOULD FINANCE THESE DRAWINGS FROM THE POOLED DEPOSITS AND COMMERCIAL BORROWING. ANY CAPITAL CONTRIBUTIONS MADE TO THE FUND WOULD PROVIDE A RESERVE ACCOUNT WHOSE EARNINGS COULD HELP DEFRAY INTEREST AND OTHER EXPENSES. US DEL POINTED OUT THAT ICA'S COULD EXPECT BETTER INVESTMENT RETURNS AND BORROWING TERMS FROM JOINING THEIR CAPACITIES IN THIS WAY, IN ADDITION TO THE ECONOMIES TO BE EXPECTED FROM POOLING SUBSTANTIAL AMOUNTS OF THEIR CASH RESOURCES. REACTION OF OTHER DELS TO US CONCEPT WAS MIXED. SWITZERLAND, SWEDEN, BELGIUM, NORWAY, AND FINLAND EXPRESSED FAVORABLE VIEWS. FRENCH WERE WORRIED THAT ANY SCHEME WHICH ALLOWED ICA'S TO RESORT TO BORROWING FOR A MAJORITY OF THEIR REQUIREMENTS WOULD GREATLY CHANGE THE NEGOTIATING ENVIRONMENT FOR THESE AGREEMENTS, AND CANADIANS SUGGESTED AUTONOMY OF ICA'S WOULD BE REDUCED. GERMANS ACCUSED US OF ABANDONING POOLING IDEA FOR A SOURCE-TYPE FUND RELYING ON GUARANTEES BY STRONGER DEVELOPED COUNTRIES. UK ALSO CHARACTERIZED US IDEA AS ALARMING DEPARTURE FROM POOLING WHICH WOULD IMPLY MUCH GREATER ROLE FOR COMMON FUND THAN HAD PREVIOUSLY BEEN ENVISAGED, AND QUESTIONED LEGALITY AND FEASIBILITY OF POOLING WAREHOUSE RECEIPTS. BOTH THESE DELS FAVORED HOLDING LIMITED OFFICIAL USE

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PAGE 03 PARIS 26408 02 OF 03 121547Z

CREDITS TO ICA'S TO ECONOMIES GAINED FROM POOLING OF DEPOSITS.

5. IN RESPONSE US DEL NOTED THAT POOLING ECONOMIES CONTINUED TO BE BASIC TO US PROPOSAL AND POINTED OUT THAT TIN AGREEMENT ALREADY OPERATED ALONG LINES OF US MODEL. CONCEPT WAS THUS NOT A NEW ONE. IN ADDITION, US WAS NOT WEDDED TO ANY PARTICULAR FIGURE FOR MINIMUM DEPOSIT, THOUGH SOMETHING IN 40 TO 60

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PAGE 01 PARIS 26408 03 OF 03 121552Z

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LIMITED OFFICIAL USE SECTION 03 OF 03 PARIS 26408

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PERCENT RANGE SEEMED REASONABLE. FINALLY, USE BY FUND
OF RIGHTS TO CALLABLE CAPITAL OF ICA'S AND WAREHOUSE
RECEIPTS AS BACKING FOR ITS BORROWING SEEMED FEASIBLE,
AND DID NOT IN ANY WAY IMPLY DEVELOPED COUNTRY RESPON-
SIBILITY FOR FINANCING THE FUND. SEVERAL DELS AFTER-
WARDS INDICATED GREATER UNDERSTANDING OF US IDEA.

6. OTHER ISSUES: ALTHOUGH GROUP HAD LENGTHY DISCUSSION
OF PROBLEMS OF RELATIONSHIPS OF LEVY-FINANCED ICA'S
(SUCH AS COCOA) AND ICA'S INVOLVING NATIONALLY HELD
OR FINANCED STOCKS (SUCH AS SUGAR) TO A COMMON FUND,
NO CONCLUSIONS WERE REACHED. FRG DID NOT THINK ANY
LEVY-FINANCED ICA'S WOULD BE NEGOTIATED IN FUTURE OR
THAT NATIONAL STOCKS COULD BE RELATED TO THE FUND.
FRANCE, ON OTHER HAND, THOUGHT IT WOULD BE MISTAKE TO
DESIGN FUND WHICH COULD NOT INCLUDE NATIONAL STOCKS,
WHICH MIGHT BE COMMON FEATURE OF FUTURE ICA'S. FRENCH,
SCANDINAVIANS, AND SWISS ALSO CONSIDERED FUTURE LEVY-
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PAGE 02 PARIS 26408 03 OF 03 121552Z

FINANCED ICA'S TO BE A POSSIBILITY AND SUGGESTED
LARGER THAN NORMAL INITIAL CREDITS COULD BE PROVIDED BY

FUND IN SUCH CASES ON BASIS OF FUTURE EXPECTED INCOME.
ON QUESTION OF INTEREST RATES, SWEDEN, FINLAND,
AND NETHERLANDS ADVOCATED CONSIDERATION OF SUBSIDY
FOR FUND LENDING RATES TO MAKE THESE ATTRACTIVE TO
ICA'S. OTHER DELS WERE GENERALLY HOSTILE TO THIS
IDEA. OF NATIONAL SUBMISSIONS, ONLY FRENCH PAPER
DEALT IN DETAIL WITH ISSUES OF MANAGEMENT AND VOTING,
PROPOSING A TRIPARTITE (ICA'S, LDC'S, DC'S) COUNCIL OF
ADMINISTRATION. US DEL SUGGESTED THIS FORMULA WAS
LIKELY TO BE OVERLY CONFRONTATIONAL AND STRESSED
IMPORTANCE OF DEALING WITH MANAGEMENT/VOTING ISSUES
AT EARLY DATE. GROUP AGREED TO TAKE THESE UP AT
NEXT MEETING.

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